

Using Credit Wisely

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D E P O S I T O R Y L I B R A R Y M A T E R I A L



Ontario

Ministry of
Consumer and
Commercial
Relations

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Buying on credit is so widespread that most of us can't imagine a world without it. We obtain goods, services and money in exchange for the promise to pay in the future.

Credit is an important financial tool that makes living more convenient and, skillfully used, enriches life by helping us purchase goods and services as we need them. Carelessly used or abused, credit may cause serious problems.

Buying credit is no different from buying consumer goods. The shopper has to know when, what, where and how much to buy, depending on needs, values, goals and income. It is vital to know both the advantages and disadvantages of credit, the cost, potential sources and the responsibilities involved.



The advantages of credit

Credit makes it possible to acquire goods and services as they are needed and to pay for them with future income.

Credit gives us the use of durable goods such as houses, cars, appliances or other major items without a long waiting and saving period, during which time retail costs may rise.

Credit helps handle temporary and unexpected financial emergencies which may occur, for example, when the roof or furnace needs immediate replacement.

Credit is a convenient way to buy goods and services without carrying large sums of money. There's the additional bonus of receiving a record of the charges which simplifies budgeting. Credit allows the consideration of better quality goods than could be purchased with cash from income. It prevents the depletion of savings or liquidation of investments which may earn higher rates of interest than the lender charges.

Credit enables the shopper to take advantage of sales and price reductions.

Credit purchase of durables such as a car, typewriter or appliance may be an employment aid and valuable time-saver.

The disadvantages of credit

Credit availability encourages unreasonably raised living standards and repayments may take too big a slice of current income. If repayments are not carefully budgeted, future income will be strained and necessities such as food, rent and clothing will have to be cut back.

Credit cost will inflate the overall price of goods and services.

Credit cards are easy to use. This encourages impulse shopping. The use of credit makes future income less flexible. Therefore, it is important to consider whether the goods and services have lasting value.

Credit is a service for which we pay and goods paid for over a period of time are more costly than cash purchases. A decision must be made whether current use outweighs future costs.

Credit may require collateral and default of payment may result in the loss of valuables.

Credit accounts could lock the shopper into one store and eliminate comparison shopping.





Credit costs money

Credit rates vary according to the source and the type of transaction. The interest charged depends on the degree of risk involved, the cost of money at a particular time plus the expenses of collection and record-keeping. The lending of money is subject to varying degrees of government regulation. One of the most important consumer laws is The Ontario Consumer Protection Act, 1967, which obliges everyone extending credit to provide the borrower, before credit is given, with a clearly written statement showing the cost of borrowing both in terms of dollars and as an annual percentage rate. The lender must also show, in writing, the additional charges to be made if the borrower defaults on payment. This detailing of costs applies not only to contracts for goods and services purchased on credit but to overdue monthly charge accounts and to all loans.

Credit worthiness

Your ability to obtain credit, whether it be a personal loan, a charge account or a credit card, depends on your credit record based on what those making loans call the four Cs: character, capability, capital and common sense.

Character means a sincere attitude toward repayments based on your previous financial record.

Capability includes employment record and ability to pay instalments on current income.

Capital is what is owned that is worth more than the debt, such as life insurance, savings, car, equity in a home or household goods.

Common sense is the ability to use credit wisely and to be honest in disclosure of income and other debts.

Credit worthiness is determined by personal interview after an initial written application.

Credit bureaus

Retailers and lending agencies verify the information given at the interview through a credit bureau, which collects information from a variety of sources. Records are maintained from the first time you use credit. However, you can discuss your record with your local bureau. A consumer credit record is a valuable commodity. Protect it by using credit wisely.

Sources of credit

There are a number of ways of obtaining credit:

Banks offer a variety of consumer credit plans with interest rates varying with the type of loan, the borrower's credit reputation and collateral security.

Credit unions are co-operative institutions that have two basic functions: accepting savings from and extending loans to members.

Trust companies extend personal loans and are an important source of mortgage money.

Consumer loan companies are private businesses. The interest on loans under \$1,500 is regulated by the Canadian Small Loans Act. Interest on loans over this amount is set by the companies themselves.

Note: This is a 'beware' area. If a borrower is over-extended and has a number of outstanding debts there is often desire and pressure to consolidate and make one payment a month. If the loan after refinancing exceeds \$1,500 an interest rate higher than that stipulated by the Small Loans Act may be charged.

Sales finance companies buy instalment purchase contracts from retailers who don't want to tie up working capital for long periods while the consumer pays for a car or other goods. Few consumers realize that, in addition to a sales contract, they are also signing a promissory note which will be sold to the sales finance company which will receive the monthly payments. Under the Bills of Exchange Act merchants have to mark promissory notes "Consumer Purchase" and the finance company is held responsible for product quality and service if the merchant defaults.



Life insurance companies will lend money on the cash value of a life policy. The interest rate is low in comparison with that of other lenders but this is understandable. You are, in effect, borrowing your own money! The loan is secured by the cash value of the policy and the outstanding amount is deducted should death occur.

Credit card organizations issue identification cards which recognize that the customer's credit will be honored by the issuer up to a pre-determined amount. Accounts paid within 30 days of receipt are interest-free. Overdue accounts are charged at a pre-disclosed rate of interest.

Retail credit charge accounts are interest-free for 30 days; overdue accounts are charged interest on the outstanding balance. Long term retail store "revolving", "budget", and "homeowner" accounts are in reality high interest loans.

When you want credit, shop around. Not only are there different types of lending agencies but, within their own groupings, rates vary. Compare the rates and terms offered to you, then evaluate your own situation.

- A large down payment makes for smaller instalments.
- A quick repayment keeps interest charges down.

Cop ing with credit difficulties

Credit troubles result from over-extension, mismanagement, inexperience or unforeseen emergencies. A debtor who wants to pay, but can't, keeps a good credit record and avoids unpleasantness by going to the creditor with the problem before payment is due.

When payments are not met, the merchandise as well as the money paid may be lost through repossession. However, if more than two-thirds of the debt has been paid, repossession cannot take place without a court order under The Ontario Consumer Protection Act.

Don't sign a contract until you have read it and understood it. If you don't understand, ask questions until satisfied. Never sign a blank sheet. Your signature is your promise to pay and a contract is a legal document.



For further information:

Consumer Information Centre
Ontario Ministry of
Consumer and Commercial Relations
555 Yonge Street
Toronto, Ontario
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If you have a complaint:

Consumer Services Bureau
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